

MALACHITE AGGRESSIVE PREFERRED FUND

Monthly Report, June 2004

The fund finished another quarter of outperformance with a solid return in June of +1.49%, well ahead of the index which returned +0.86%. Although total returns for the quarter were negative, the continuing outperformance shows the value of the Hymas Investment Management analytical system.

Month	MAPF Total Return*	NB-50 Total Return	<i>The "NB-50" is an index of preferred shares proprietary to BMO Nesbitt Burns. It is composed of 50 issues having good liquidity and credit quality.</i>
July, 2003	+3.54%	-0.30%	
August	+2.26%	+0.52%	
September	+3.10%	+1.31%	
October	+0.84%	+0.26%	
November	+1.99%	+0.35%	
December, 2003	+2.42%	+1.32%	
January, 2004	+2.03%	+1.74%	
February	+1.95%	+0.62%	
March	+2.57%	+0.83%	
April	-4.49%	-3.23%	
May	+1.23%	-0.02%	
June, 2004	+1.49%	+0.86%	
Last 12 Months	+20.40%	+4.26%	
Last Two Years (annualized)	+13.56%	+6.11%	
Last Three Years (annualized)	+14.18%	+5.12%	
Since Inception (March, 2001)	+54.05%	+14.30%	
<i>*MAPF total returns include reinvestment of dividends and are after fund expenses but prior to management fees. They are shown for illustrative purposes only and future returns are not assured.</i>			

Quarter	MAPF Total Return	NB-50 Total Return
2Q01	+3.50%	-1.59%
3Q01	+7.50%	+2.12%
4Q01	-2.12%	+0.78%
1Q02	+6.57%	-0.02%
2Q02	+2.92%	+0.27%
3Q02	-11.35%	+2.25%
4Q02	+4.05%	+1.84%
1Q03	+1.65%	-0.15%
2Q03	+14.24%	+3.85%
3Q03	+9.16%	+1.53%
4Q03	+5.34%	+1.94%
1Q04	+6.70%	+3.21%
2Q04	-1.87%	-2.41%

Floating rate issues became somewhat less expensive during the month, but the firm’s analytics indicates that they remain grossly overpriced. Greater change was shown by the “Split-Share Spread”, which indicates the additional income demanded by investors for their investment in split-share-corporation preferred, which continued its long-term decline to just over half a percent on an after-tax basis.

Split-share preferred were star performers in June, averaging a return of over one-quarter percent more than their operating-company cousins.

As has been noted in these monthly reports in the past, the correlation between yield-curve spreads and relative returns between risk factor classes can often be confused due to the lack of homogeneity within each risk group.

As an example, consider the risk characteristics as they are distributed with respect to the “split-share corporation” indicator, as shown in the chart on page 3. It may be easily seen that there are some great variances in the composition of other risk characteristics when the

Curve Attribute	May 31, 2004 (After-tax Figures)	June 30, 2004 (After-tax Figures)
Base Rate	3.43%	3.35%
Short Term Premium	-3.53%	-3.51%
Short Term Decay Time	4.6 Years	4.3 Years
Long Term Premium	0.78%	0.86%
Long Term Decay Time	27.7 Years	29.0 Years
Interest Income Spread	0.94%	0.98%
Cumulative Div. Spread	-0.49%	-0.42%
Split-Share Spread	0.62%	0.52%
Retractability Spread	-0.51%	-0.56%
Floating Rate Spread	-1.50%	-1.43%
2 nd Tier Credit Spread	0.36%	0.31%
3 rd Tier Credit Spread	0.60%	0.56%
“High” Credit Spread	-0.24%	-0.25%
“Low” Credit Spread	0.00%	0.00%
<i>Note: Figures for May have changed somewhat from the previous report. This is due to additions of data.</i>		

Risk Factor	Returns for “True” (Pre- Tax)	Returns for “False” (Pre- Tax)
Retractable	0.75%±1.80%	0.97%±2.90%
Split Share Corp	1.07%±1.39%	0.80%±2.60%
Cumulative Dividends	0.65%±2.48%	1.19%±2.22%
Payments are Dividends	0.83%±2.48%	1.14%±0.89%
Floating Rate	0.74%±4.30%	0.89%±1.21%
Credit Class 2	0.66%±1.83%	1.09%±2.92%
Credit Class 3	0.38%±1.03%	0.96%±2.60%
Credit Class Modifier “High”	1.15%±1.09%	0.77%±2.65%
Credit Class Modifier “Low”	0.29%±1.90%	1.19%±2.60%

universe is divided into its “split-share” and “operating company” components. There are no split share preferreds which pay a floating-rate dividend, for example; while all split shares are considered to be

retractable (usually due to a maturity date that is fixed in the prospectus), only 46 of the 118 “operating company” shares are classed in this manner.

This heterogeneity of risk-factors complicates the task of portfolio management; should analysis indicate that the most attractive mix of risk classes are perpetual split-share corporations with a floating rate dividend, it will be impossible to find a single issue which incorporates these characteristics and compromises must be made. The Hymas Investment Management analytical system will, however, weigh the various attributes and attempt to hold the portfolio in which all attributes are represented in as good a mix as is possible given the quantization of real-world assets.

Risk Attribute	Split Share Corporation	
	True	False
Retractable	31 – 0	46 – 72
Split-Share Corp	31 – 0	0 – 118
Cumulative Dividends	28 – 3	65 – 53
Payments are Dividends	31 – 0	108 – 10
Credit Class 2	15 – 16	66 – 52
Liquidity Measured	31 – 0	118 – 0
Credit Class 3	2 – 29	25 – 93
Floating Rate	0 – 31	37 – 81
Credit Class High	0 – 31	32 – 86
Credit Class Low	3 – 28	53 – 65
Credit Class UNRATED	10 – 21	3 – 15

The two columns under “Split-Share Corporation” divide the universe into two groups: those which are and those which are not split-shares. The rows show the other major risk factors and count the issues in the Universe for which each risk factor is true and false. For example, of the 31 split-share issues examined, 15 are “Credit Class 2” and 16 are not. For the 118 issues in the Universe which are not split shares, 66 are “Credit Class 2” and 52 are not.

This month’s graph shows the relationship between the “bid-yield-to-worst” and the “trading valuation-at-bid” that is the foundation of trades executed by Hymas Investment Management. While there is clearly a significant correlation between the two measures, it is also clear that the Hymas Investment Management Analytical System goes well beyond this simple measure in an attempt to identify value within the preferred share universe. The correlation between the two values is, in fact, about 26%, with the remaining 74% of the variance being accounted for by the various more sophisticated elements that have been identified through the careful

examination of the relationship between instrument properties and expected future return.

TSE Ticker Symbol	Total Return, June 2004	Remarks (Valuation commentary based on Ontario’s highest marginal tax rate)
BNN.PR.A*	-11.37%	Very low volume, very volatile price.
BBD.PR.B*	-3.05%	The May downgrade continues to hurt Bombardier
ENB.PR.A*	-1.92%	Good volume, Credit Class 2, somewhat expensive at 25.06-28
BNN.PR.J*	-1.82%	Liquid, Credit Class 2, Fixed Rate, cheap at 25.14-37
W.PR.H	-1.81%	Liquid, Credit Class 2, Fixed Rate, inexpensive at 24.30-39
...
MMF.PR.C	+3.47%	Credit Class 1 on recent upgrade. Expensive at 26.46-59
STQ.E	+3.99%	Split share, poor credit.
HPF.PR.B	+5.62%	Split share, low volume, expensive at 15.75-00
NTL.PR.G	+16.11%	Nortel bounces back ...
NTL.PR.F	+17.53%	... and leads the rankings!

*indicates that the issue was also on last month’s best/worst performers table

James Hymas
Portfolio Manager

Universe Properties as of 2004-06-30

Tax Identifier: 7

X-Axis: Yield-to-Worst (at Bid)

Y-Axis: Trading Valuation (Bid)

